

Message Text

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16

ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-04 FRB-01

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AGR-05 NSC-05 SS-15 STR-01 CEA-01 /073 W

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8848

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TAGS: ELAB NZ

SUBJECT: PRIME MINISTER'S SPEECH TO FEDERATION OF LABOUR

REF: WELLINGTON 3366

1. SUMMARY - IN MAJOR SPEECH AT OPENING OF NEW FEDERATION OF LABOUR (FOL) HEADQUARTERS OCTOBER 31, PRIME MINISTER ROWLING STRESSED NEED FOR COOPERATION FROM ALL SECTORS TO INSURE ECONOMY ADJUSTS TO LOWER GROWTH RATE WITH MINIMUM DISRUPTION AND WARNED OF POSSIBLE ADDITIONAL MEASURES IF COOPERATION NOT FORTHCOMING. ROWLING REITERATED TO TRADE UNION AUDIENCE NEED TO RENEGOTIATE PRESENT REGULATIONS UNDER WHICH WORKERS SCHEDULED RECEIVE NEAR-AUTOMATIC WAGE ADJUSTMENT IN JANUARY EQUAL TO JULY-DECEMBER RISE IN CONSUMER PRICE INDEX (CPI). END SUMMARY.

2. IN SETTING TONE FOR SPEECH ROWLING NOTED GENERAL POPULAR RELIEF THAT MEASURES ANNOUNCED OCTOBER 23 WERE Milder
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THAN EXPECTED. HE CAUTIONED, HOWEVER, THAT THERE SHOULD

BE NO FALSE EXPECTATIONS ABOUT POTENTIAL GRAVITY OF ECONOMIC OUTLOOK AND NOTED EARLY END TO NEW ZEALAND'S UNFAVORABLE TERMS OF TRADE AND ASSOCIATED ECONOMIC PROBLEMS IS UNLIKELY. GIVEN DIFFICULTIES WITH TERMS OF TRADE ROWLING SAID, "WE CAN NO LONGER AFFORD FURTHER TO RUN DOWN OUR RESERVES OR TO EXTEND OUR BORROWING WITHOUT REGARD FOR FUTURE REPAYMENT OBLIGATIONS. THERE IS NOW NO ALTERNATIVE BUT GOVERNMENT ACTION DESIGNED TO INSURE THE ECONOMY ADJUSTS TO A LOWER GROWTH RATE COMPATIBLE WITH OUR EARNING POWER." THIS WOULD REQUIRE COOPERATION, FAILING WHICH ADJUSTMENT WOULD STILL HAVE TO BE MADE BUT WOULD BE "UNPLEASANT, UNFAIR AND UNNECESSARILY HARMFUL IN ITS EFFECTS."

3. IN DISCUSSING GOVERNMENT'S DESIRE TO CHANGE REGULATIONS RELATING TO SEMI-ANNUAL WAGE INCREASE MATCHING INCREASE IN CPI, ROWLING SAID HE HOPED NEGOTIATIONS COULD BE UNDERTAKEN IN SPIRIT OF COMPROMISE. AS A SWEETENER, ROWLING FLATLY STATED GOVERNMENT HAS RULED OUT CREATION OF UNEMPLOYMENT AS A DELIBERATE ECONOMIC WEAPON. HE ALSO SAID GOVERNMENT WOULD NOT BE PANICKED INTO USING STRINGENT DEFLATIONARY MEASURES TAKEN ELSEWHERE NOTING THAT THESE "HAVE NOT CURED INFLATION BUT HAVE PROMOTED STAGNATION AND LEVELS OF UNEMPLOYMENT WE WOULD FIND QUITE INTOLERABLE."

4. COMMENT- GATHERING OF APPROX 150 TRADE UNION LEADERS WAS IDEAL SETTING FOR ROWLING TO DELIVER WHAT WILL PROBABLY BE HIS SET SPEECH FOR THE NEXT SEVERAL MONTHS. EVIDENT IN SPEECH WAS ROWLING'S READINESS TO DROP THE OTHER SHOE IF REQUIRED COOPERATION FROM VARIOUS SECTORS WAS NOT FORTHCOMING. FOL REACTION TO SPEECH WAS MUTED. LEADERSHIP OBVIOUSLY DOES NOT LIKE IDEA OF HAVING TO NEGOTIATE A REDUCTION IN THE INCREASE WORKERS WOULD HAVE OTHERWISE RECEIVED IN JANUARY. AT THE SAME TIME THEY ARE AWARE THAT LABOR WILL HAVE TO SHOULDER MUCH OF THE RESPONSIBILITY FOR FURTHER DETERIORATION OF THE ECONOMY IF WAGES RISE PRACTICALLY UNCHECKED. FURTHER ADDING TO THE FOL'S WOES IS THE FACT THAT 1975 WILL BE AN ELECTION YEAR. FAILURE OF THE FOL TO BE ON ITS BEST BEHAVIOR MIGHT WELL LEAD TO A NATIONAL PARTY GOVERNMENT UNDER ROB MULDOON, A POSSIBILITY THAT MAKES MOST FOL LEADER SHUDDER.

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